

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Chatham	County Alger
Fiscal Year End 6/30/06	Opinion Date 11/10/06	Date Audit Report Submitted to State 12-26-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman, & Company, PLC		Telephone Number 906-225-1166	
Street Address 102 W. Washington St., Suite 109		City Marquette	State MI
Zip 49855			
Authorizing CPA Signature 	Printed Name Michael Alan Greutz	License Number 1101027988	

VILLAGE OF CHATHAM, MICHIGAN
FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

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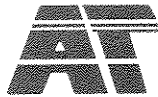
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ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

INDEPENDENT AUDITORS' REPORT

Honorable President and Members of
The Village Board of Trustees
Village of Chatham, Michigan
P.O. Box 167
Chatham, Michigan 49816

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund, as of and for the year ended June 30, 2006, which collectively comprise the Village of Chatham, Michigan's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Chatham, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Village of Chatham, Michigan as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 2006 on our consideration of the Village of Chatham, Michigan's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and other matters and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 5 through 9 and 29 through 31, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain

Honorable President and Members of the Village Board of Trustees
Village of Chatham, Michigan

limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Chatham, Michigan's basic financial statements. The combining and individual fund financial statements and schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 10, 2006

Village of Chatham, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Village of Chatham's financial performance provides an overview of the Village's financial activities for the year ended June 30, 2006. Please read it in conjunction with the financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- Net assets for the Village as a whole decreased by \$9,948 as a result of this year's operations. Net assets of our business-type activities decreased by \$30,272, or 2 percent, and net assets of our governmental activities increased by \$20,324, or 9 percent.
- During the year, the Village had expenses for governmental activities that were \$74,131 which is \$20,324 more than the \$92,380 generated in program revenue sources.
- During the year, the Village had expenses for business-type activities that were \$104,682 which is \$30,272 less than the \$74,410 generated in program revenue sources.
- The General Fund reported a net fund balance of \$35,993, which is an increase of \$5,469 as a result of this year's operation.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 10 and 11) provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements start on page 12. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for the future spending. Fund financial statements also report the Village's operations in more detail than the government-wide statements by providing information about the Village's most significant funds. The remaining statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside the government.

Reporting the Village as a Whole

Our analysis of the Village as a whole begins on page 6. One of the most important questions asked about the Village's finances is "Is the Village as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Village as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Village's *net assets* and changes in them. You can think of the Village's net assets - the difference between assets and liabilities - as one way to measure the Village's financial health, or *financial position*. Over time, *increases or decreases* in the Village's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Village's patron base and the condition of the Village's capital assets, to assess the *overall financial health* of the Village.

In the Statement of Net Assets and the Statement of Activities, we divide the Village into two kinds of activities:

- **Governmental Activities** – Most of the Village's basic services are reported here, including the legislative, elections, public safety, public works, recreation and culture, community and economic development and general services and administration. Property taxes, charges for services and state sources fund most of these activities.
- **Business-Type Activities** – The Village charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Village's Water System and Sewer System activities are reported here.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Reporting the Village's Most Significant Funds

Our analysis of the Village's major funds begins on page 7. The fund financial statements begin on page 12 and provide detailed information on the most significant funds – not the Village as a whole. Some funds are required to be established by State law and by bond covenants. However, the Village Board establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using taxes, grants, and other money. The Village's two kinds of funds - *governmental* and *proprietary* - use different accounting approaches.

- *Governmental funds* – Most of the Village's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.
- *Proprietary funds* – When the Village charges customers for the services it provides – whether to outside customers or to other units of the Village – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the Village's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the Village's other programs and activities.

The Village as a Whole

Table I provides a summary of the Village's net assets as of June 30, 2006 and 2005.

Table 1
Net Assets

	2006			2005		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Current and other assets	\$179,921	\$147,543	\$327,464	\$158,813	\$119,372	\$278,185
Capital assets, net	77,040	1,242,480	1,319,520	81,045	1,305,050	1,386,095
Total Assets	256,961	1,390,023	1,646,984	239,858	1,424,422	1,664,280
Current liabilities	810	9,775	10,585	4,031	11,902	15,933
Non-current liabilities	-	189,000	189,000	-	191,000	191,000
Total Liabilities	810	198,775	199,585	4,031	202,902	206,933
Net Assets:						
Invested in capital assets, net of related debt	\$77,040	\$1,051,480	\$1,128,520	\$81,045	\$1,112,050	\$1,193,095
Restricted	-	52,756	52,756	-	47,813	47,813
Unrestricted (deficit)	179,111	87,012	266,123	154,782	61,657	216,439
	\$256,151	\$1,191,248	\$1,447,399	\$235,827	\$1,221,520	\$1,457,347

Net assets of the Village's governmental activities stood at \$256,151. *Unrestricted* net assets—the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$179,111.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The \$179,111 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The net assets of our business-type activities stood at \$1,191,248. The Village can generally only use these net assets to finance continuing operations of the Water System and Sewer System operations.

The results of this year's operations for the Village as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2006 and 2005.

	2006			2005		
	Governmental Activities - 2005	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program Revenues:						
Charges for services	\$10,762	\$70,002	\$80,764	\$8,840	\$66,361	\$75,201
Operating Grants and Contributions	37,060	-	37,060	34,347	3,229	37,576
General Revenues:						
Property taxes	17,967	-	17,967	18,221	-	18,221
State Sources	20,335	-	20,335	20,564	-	20,564
Interest and Miscellaneous	6,256	4,408	10,664	3,834	1,752	5,586
Total Revenues	92,380	74,410	166,790	85,806	71,342	157,148
Program Expenses:						
Legislative	3,725	-	3,725	3,800	-	3,800
Elections	-	-	-	-	-	-
General Services and administration	28,577	-	28,577	31,934	-	31,934
Public Safety	621	-	621	632	-	632
Public Works	38,006	-	38,006	89,792	-	89,792
Community and Economic Development	60	-	60	-	-	-
Other Expense	1,067	-	1,067	-	-	-
Unallocated Depreciation	2,075	-	2,075	1,317	-	1,317
Sewer system	-	24,243	-	-	95,233	26,495
Water system	-	80,439	-	-	26,495	95,233
Total Expenses	74,131	104,682	178,813	127,475	121,728	249,203
Increase (decrease) in net assets	20,324	(30,272)	(9,948)	(41,669)	(50,386)	(92,055)
Net assets, beginning,	235,827	1,221,520	1,457,347	277,496	1,271,906	1,549,402
Net Assets, Ending	\$256,151	\$1,191,248	\$1,447,399	\$235,827	\$1,221,520	\$1,457,347

The Village's total revenues were \$166,790. The total cost of all programs and services was \$178,813, leaving a decrease in net assets of \$9,948. Our analysis below separately considers the operations of governmental and business-type activities:

Governmental Activities

The Governmental Activities experienced an increase in net assets for the year of \$20,324.

Key reasons for the change in net assets are as follows:

Net Increase in governmental fund balances of \$19,959
Depreciation charged to expenditures of \$(2,075)

Business-type Activities

The Business-Type Activities had a Net Loss of \$30,272 which is resulting from not charging users enough to cover depreciation expense.

THE VILLAGE'S FUNDS

As the Village completed the year, its governmental funds (as presented in the balance sheet on page 12 reported a *combined* fund balance of \$169,135 an increase of \$19,959 from the beginning of the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

General Fund

In our General Fund, there was a gain of \$5,469 relating to budget expenditures close with revenues.

Major Road Fund

In our Major Road Fund, there was a gain of \$15,326 due to saving for future projects.

Local Road Fund

In our Local Road Fund, there was a loss of \$836 due to several projects during the fiscal year, which were paid from fund balance.

General Fund Budgetary Highlights

Over the course of the year, the Village Board did not revise the budget.

Budget amendments were not done during the year due to simple oversight. There were no significant budget variances during the fiscal year. Revenues were \$2,241 more than the budgeted \$39,400 and expenditures were \$428 less than the budgeted \$36,600.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2006 and 2005, the Village had \$1,319,520 and \$1,386,095 invested in a variety of capital assets including land and improvements, buildings and improvements, and other equipment. (See table 3 below).

Table 3
Capital Assets at Year-End

	2006			2005		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
Land	\$1,000	\$6,225	\$7,225	\$1,000	\$6,225	\$7,225
Buildings and improvements	66,400	1,231,497	1,297,897	68,475	1,293,701	1,362,176
Equipment and furnishings	9,640	4,758	14,398	11,570	5,124	16,694
TOTALS	\$77,040	\$1,242,480	\$1,319,520	\$81,045	\$1,305,050	\$1,386,095

There were no additions or deletions to Capital Assets during the current year end and depreciation expense of \$66,574 was recorded during the year.

Debt

At the end of fiscal year 2006 and 2005, the Village had \$191,000 and \$193,000 in bonds and notes outstanding as depicted in Table 4 below.

Table 4
Outstanding Debt at Year-End

	2006			2005		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
Revenue Bond	\$-	\$191,000	\$191,000	\$-	\$193,000	\$193,000
TOTALS	\$-	\$191,000	\$191,000	\$-	\$193,000	\$193,000

There were no new additions to debt for this year and principal payments were \$2,000. Further details on long-term debt can be found in the Footnotes to the Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In preparing the Village's budget for the year ending June 30, 2007, the Village considered the following issues:

We reviewed the fiscal year 2005 and 2006 budget vs. actual and budgeted roughly the same amounts, except for some minor variances.

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village of Chatham, P.O. Box 167, Chatham, MI 49816.

Village of Chatham, Michigan

STATEMENT OF NET ASSETS

June 30, 2006

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current Assets:			
Cash and equivalents	\$ 166,187	\$ 139,425	\$ 305,612
Receivables (net)	14,322	7,530	21,852
Interfund receivables and payables	(588)	588	-
TOTAL CURRENT ASSETS	179,921	147,543	327,464
Non-current assets:			
Land and construction in progress	1,000	6,225	7,225
Other capital assets	133,378	2,323,135	2,456,513
Accumulated depreciation	(57,338)	(1,086,880)	(1,144,218)
Total Capital Assets	<u>77,040</u>	<u>1,242,480</u>	<u>1,319,520</u>
TOTAL NON-CURRENT ASSETS	77,040	1,242,480	1,319,520
TOTAL ASSETS	256,961	1,390,023	1,646,984
LIABILITIES:			
Current Liabilities:			
Accounts payable	-	-	-
Accrued liabilities	810	3,875	4,685
Deferred revenue	-	-	-
Current portion of bonds payable	-	2,000	2,000
Other current liabilities	-	3,900	3,900
TOTAL CURRENT LIABILITIES	810	9,775	10,585
Non-current Liabilities:			
Compensated absences	-	-	-
Bonds payable	-	189,000	189,000
TOTAL NON-CURRENT LIABILITIES	-	189,000	189,000
TOTAL LIABILITIES	810	198,775	199,585
NET ASSETS			
Invested in capital assets net of related debt	77,040	1,051,480	1,128,520
Restricted for:			
Debt Service	-	52,756	52,756
Unrestricted	<u>179,111</u>	<u>87,012</u>	<u>266,123</u>
TOTAL NET ASSETS	\$ 256,151	\$ 1,191,248	\$ 1,447,399

The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2006

Function / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business Type Activities	Total
Primary Government:							
Governmental Activities:							
Legislative	\$ 3,725	\$ -	\$ -	\$ -	\$ (3,725)	\$ -	\$ (3,725)
General Services and Administration	28,577	-	-	-	(28,577)	-	(28,577)
Public Safety	621	-	621	-	-	-	-
Public Works	38,006	10,762	36,439	-	9,195	-	9,195
Community and Economic Development	60	-	-	-	(60)	-	(60)
Recreation and Culture	-	-	-	-	-	-	-
Other	1,067	-	-	-	(1,067)	-	(1,067)
Unallocated Depreciation	2,075	-	-	-	(2,075)	-	(2,075)
Total Governmental Activities	74,131	10,762	37,060	-	(24,234)	-	(24,234)
Business Type Activities:							
Sewer Fund	24,243	20,748	-	-	-	(3,495)	(3,495)
Water Fund	80,439	49,254	-	-	-	(31,185)	(31,185)
Total Business Type Activities	104,682	70,002	-	-	-	(34,680)	(34,680)
TOTAL PRIMARY GOVERNMENT	\$ 178,813	\$ 80,764	\$ 37,060	\$ -	(24,234)	(34,680)	(58,914)
General Revenues:							
Taxes					17,967	-	17,967
Unrestricted State Sources					20,335	-	20,335
Interest and Investment Earnings					5,478	4,408	9,886
Miscellaneous					778	-	778
Transfers					-	-	-
TOTAL GENERAL REVENUES					44,558	4,408	48,966
CHANGE IN NET ASSETS					20,324	(30,272)	(9,948)
Net assets, beginning of year					235,827	1,221,520	1,457,347
NET ASSETS, END OF YEAR					\$ 256,151	\$ 1,191,248	\$ 1,447,399

The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2006

	General Fund	Major Road Fund	Local Road Fund	Non-Major Governmental Funds (Liquor Law Fund)	Total Governmental Funds
ASSETS					
Cash and equivalents	\$ 28,869	\$ 76,753	\$ 50,589	\$ -	\$ 156,211
Receivables	8,828	3,470	2,024	-	14,322
Due from other funds	-	198	108	-	306
TOTAL ASSETS	\$ 37,697	\$ 80,421	\$ 52,721	\$ -	\$ 170,839
LIABILITIES AND FUND BALANCE					
LIABILITIES:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	894	-	-	-	894
Accrued payroll and related	810	-	-	-	810
Deferred revenue	-	-	-	-	-
TOTAL LIABILITIES	1,704	-	-	-	1,704
FUND BALANCE:					
Unreserved:	35,993	80,421	52,721	-	169,135
TOTAL FUND BALANCE	35,993	80,421	52,721	-	169,135
TOTAL LIABILITIES AND FUND BALANCE	\$ 37,697	\$ 80,421	\$ 52,721	\$ -	\$ 170,839

The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

June 30, 2006

Total Fund Balances for Governmental Funds \$ 169,135

*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds

Land	1,000	
Capital assets	83,000	
Accumulated Deprecation of Assets	<u>(16,600)</u>	67,400

Internal Service Funds are used by management to administer the
activities of the Motor Vehicle and Equipment Fund. The assets and
liabilities of the internal service funds are included in the governmental
activities in the statement of net assets, net of capital assets.

Net Assets	<u>19,616</u>	<u>19,616</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 256,151

The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2006

	General Fund	Major Road Fund	Local Road Fund	Non-Major Governmental Funds (Liquor Law Fund)	Total Governmental Funds
REVENUES:					
Taxes	\$ 17,967	\$ -	\$ -	\$ -	\$ 17,967
Licenses and Permits	-	-	-	-	-
State Sources	20,335	21,018	15,421	621	57,395
Charges for Services	-	-	-	-	-
Interest	2,561	1,515	1,101	-	5,177
Other	778	-	-	-	778
TOTAL REVENUES	41,641	22,533	16,522	621	81,317
EXPENDITURES:					
Legislative	3,725	-	-	-	3,725
General Services and Administration	26,502	-	-	-	26,502
Public Safety	-	-	-	621	621
Public Works	4,818	7,207	17,358	-	29,383
Community and Economic Development	60	-	-	-	60
Recreation and Culture	-	-	-	-	-
Other	1,067	-	-	-	1,067
TOTAL EXPENDITURES	36,172	7,207	17,358	621	61,358
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	5,469	15,326	(836)	-	19,959
OTHER FINANCING SOURCES (USES):					
Transfers In	-	-	-	-	-
Transfers (Out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
CHANGE IN FUND BALANCE	5,469	15,326	(836)	-	19,959
Fund balance, beginning of year	30,524	65,095	53,557	-	149,176
FUND BALANCE, END OF YEAR	\$ 35,993	\$ 80,421	\$ 52,721	\$ -	\$ 169,135

The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	19,959
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*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$	-	
Depreciation expense		<u>(2,075)</u>	(2,075)

Internal Service Funds are used by management to administer the activities of the Motor Vehicle and Equipment Fund. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets, net of capital assets.

<u>2,440</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>20,324</u>
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The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2006

	Business - Type Activities Enterprise Funds			Governmental Activities
	Sewer System Fund	Water System Fund	Total	Internal Service Funds (Motor Vehicle and Equipment Fund)
ASSETS:				
Current Assets:				
Cash and equivalents	\$ 47,291	\$ 92,134	\$ 139,425	\$ 9,976
Accounts receivable, net	-	7,530	7,530	-
Due from other funds	587	205	792	-
TOTAL CURRENT ASSETS	47,878	99,869	147,747	9,976
Non-current Assets:				
Land	5,225	1,000	6,225	-
Capital assets	469,785	1,853,350	2,323,135	50,378
Accumulated depreciation	(310,137)	(776,743)	(1,086,880)	(40,738)
TOTAL NON-CURRENT ASSETS	164,873	1,077,607	1,242,480	9,640
TOTAL ASSETS	\$ 212,751	\$ 1,177,476	\$ 1,390,227	\$ 19,616
LIABILITIES:				
Current Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	204	204	-
Water deposits payable	-	3,875	3,875	-
Accrued interest payable	-	3,900	3,900	-
Current portion of long-term debt	-	2,000	2,000	-
TOTAL CURRENT LIABILITIES	-	9,979	9,979	-
Non-current Liabilities:				
Bond payable	-	189,000	189,000	-
TOTAL NON-CURRENT LIABILITIES	-	189,000	189,000	-
TOTAL LIABILITIES	-	198,979	198,979	-
NET ASSETS:				
Invested in capital assets net of related debt	164,873	886,607	1,051,480	9,640
Restricted - debt service	-	52,756	52,756	-
Unrestricted	47,878	39,134	87,012	9,976
TOTAL NET ASSETS	\$ 212,751	\$ 978,497	\$ 1,191,248	\$ 19,616

The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2006

	Business - Type Activities Enterprise Funds			Governmental Activities
	Sewer System Fund	Water System Fund	Total	Internal Service Funds (Motor Vehicle and Equipment Fund)
OPERATING REVENUES:				
Charges for services (net)	\$ 20,748	\$ 49,254	\$ 70,002	\$ 10,762
Other operating revenue	-	-	-	-
TOTAL OPERATING REVENUES	20,748	49,254	70,002	10,762
OPERATING EXPENSES:				
Personal services	6,958	11,595	18,553	-
Supplies	168	484	652	1,507
Other services and charges	5,189	5,938	11,127	5,186
Depreciation	11,928	50,642	62,570	1,930
TOTAL OPERATING EXPENSES	24,243	68,659	92,902	8,623
OPERATING INCOME (LOSS)	(3,495)	(19,405)	(22,900)	2,139
NON-OPERATING REVENUES (EXPENSES):				
Investment income	1,312	3,096	4,408	301
Interest expense	-	(11,780)	(11,780)	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	1,312	(8,684)	(7,372)	301
INCOME (LOSS) BEFORE TRANSFERS	(2,183)	(28,089)	(30,272)	2,440
TRANSFERS IN/(OUT)	-	-	-	-
CHANGE IN NET ASSETS	(2,183)	(28,089)	(30,272)	2,440
Net assets, beginning of year	214,934	1,006,586	1,221,520	17,176
NET ASSETS, END OF YEAR	\$ 212,751	\$ 978,497	\$ 1,191,248	\$ 19,616

The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan
PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2006

	Business-Type Activities Enterprise Funds		Governmental Activities Internal Service Funds (Motor Vehicle and Equipment Fund)	
	Sewer System Fund	Water System Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from fees and charges for services	\$ 20,748	\$ 51,768	\$ 72,516	\$ 10,762
Other operating revenues	-	-	-	-
Cash payments to employees for services	(6,958)	(11,596)	(18,553)	-
Cash payments to suppliers for goods and services	(5,599)	(6,789)	(12,387)	(6,693)
	8,191	33,385	41,576	4,069
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Cash payments for capital assets	-	-	-	-
(Increase) decrease in due from funds	(1,502)	(935)	(2,437)	-
Interest payments on bonds	-	(11,780)	(11,780)	-
Principal payments on bonds	-	(2,000)	(2,000)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES				
	(1,502)	(14,715)	(16,217)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	1,312	3,096	4,408	301
Investments and restricted assets	-	-	-	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES				
	1,312	3,096	4,408	301
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	8,001	21,766	29,767	4,370
Cash and cash equivalents, beginning of year	39,290	70,368	109,658	5,606
CASH AND CASH EQUIVALENTS, END OF YEAR				
	\$ 47,291	\$ 92,134	\$ 139,425	\$ 9,976
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (3,495)	\$ (19,405)	\$ (22,900)	\$ 2,139
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	11,928	50,642	62,570	1,930
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	-	2,114	2,114	-
Increase (decrease) in accounts payable	(242)	(326)	(568)	-
Increase (decrease) in water deposits payable	-	400	400	-
Increase (decrease) in accrued interest	-	(40)	(40)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
	\$ 11,686	\$ 52,790	\$ 64,476	\$ 1,930
	8,191	33,385	41,576	4,069

VILLAGE OF CHATHAM, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Village have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Village are described below.

(1) REPORTING ENTITY

The Village's financial statements present the Village (the primary government). In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the Village may or may not be financially accountable and, as such, be includable within the Village's financial statements.

(2) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Village's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Village's legislative, public works, public safety, community and economic development, recreation and culture and general services and administration are classified as governmental activities. The Village's Water System and Sewer System is classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Village's functions and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

The government-wide focus is more on the sustainability of the Village as an entity and the change in the Village's net assets resulting from the current year's activities. For the most part, the effect of Interfund activities has been removed from these statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(3) BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS:

The financial transactions of the Village are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Village:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Village:

General Fund – General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Village:

- **Enterprise Funds** – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- **Internal Service Funds** – Internal Service Funds are used to finance, administer and account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit or to other governmental units on a cost reimbursement basis.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The Village reports the following major governmental funds:

- The **General Fund** is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The **Major Street Fund** is used to account for the maintenance and construction of a major street system.
- The **Local Street Fund** is used to account for the maintenance and construction of a local street system.

The Village reports the following major proprietary funds:

- The **Sewer Fund** is used to account for the revenues and expenses for the operation of a sewer system.
- The **Water Fund** is used to account for the revenues and expenses for the operation of a water system.

The Village's internal service funds are presented in the proprietary funds financial statements. Because the principal users of the internal services are the Village's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity (general government, public works, etc.)

(4) BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

All enterprise funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(5) FINANCIAL STATEMENT AMOUNTS

Budgets and Budgetary Accounting – The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Village President submits to the Village Board of Trustees a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Numerous opportunities exist for public comment during the budget process including at least two formal public hearings conducted at the Village Hall to obtain taxpayer comment.
- c. Pursuant to statute, prior to June 30 of each year the budget for the ensuing year is legally enacted through adoption of an Annual General Appropriations Act.
- d. The general statute governing Village budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act. In addition to the provisions of the said Act and Board policy, general statements concerning the Board's intent regarding the administration of each year's budget are set out in the Annual General Appropriations Act. The Village Board of Trustees, through policy action, specifically directs the Supervisor not to authorize or participate in any expenditure of funds except as authorized by the Annual General Appropriations Act. The Board recognized that, in addition to possible Board sanctions for willful disregard of this policy, State statutes provide for civil liability for violations of the Annual General Appropriations Act.
- e. The President is authorized by means of Village policy to make certain transfers:
 1. The President receives a request for a budget transfer from the head of the department whose budget is to be affected. Such request must specify the necessity for the transfer, the account name and/or groups(s) and amount to be affected within prescribed limitations. Transfers in excess of those limitations must be approved by the Board of Trustees.
 2. The following considerations must be reviewed in determination of transfer approvals.
 - a. Are the transfers consistent with the intent of the Board of Trustees in adopting the annual budget?
 - b. Will the transfer maintain the financial integrity of the Village?
 - c. Will the transfer provide a reasonable solution to the Departmental operating problem?

Considering the above, the President will then decide whether or not the transfer should be made.

Supplemental appropriations are submitted to and reviewed by the President and submitted to the Village Board of Trustees for their review and approval. If approved, they are implemented by the President through a budget revision.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- f. The Village adopts its Annual Budget on a departmental basis. At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary controls exist at the most detailed level adopted by the Board of Trustees, i.e., department for analytical purposes. A detailed line item breakdown is prepared for each program. Accounting, i.e., classification control, resides at the line item detail level.
- g. Budgets for the General Funds were adopted in substance on an accrual basis which is consistent with generally accepted accounting principles. Budgeted amounts as reported in the Financial Report are as originally adopted and/or amended by the Village Board of Trustees.

Cash Equivalents and Investments – for the purposes of balance sheet classification and the statement of cash flows, cash and equivalents consist of demand deposits, cash in savings, money market accounts and short-term certificates of deposit with original maturity of three months or less. Investments are carried at fair value.

Capital Assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements and proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Land improvements	15 years
Building, structures and improvements	10-40 years
Equipment	5 years
Water and Sewage System	20-50 years
Vehicles	5 years
Infrastructure	20-50 years

Long-Term Liabilities – In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund type statement of net assets. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

Estimates – The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property Taxes – Property taxes are levied as of July 1 of each year and are due by the last day of the following March. The taxes are collected by the local unit and periodically remitted to the third parties during the collection period.

Interfund Activity – Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a result of the reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash Equivalents

As of June 30, 2006, the Village's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business Type Activities	Total Primary Government
Cash and equivalents	\$166,187	\$ 139,425	\$ 305,612
Investments	-	-	-
	<u>\$166,187</u>	<u>\$ 139,425</u>	<u>\$ 305,612</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. State law does not require and the Village does not have a deposit policy for custodial credit risk. The carrying amounts of the Village's deposits with financial institutions were \$305,612 and the bank balance was \$308,538 bank balance is categorized as follows:

Amount insured by the FDIC	\$ 200,000
Amount uncollateralized and uninsured	108,538
	<u>\$ 308,538</u>

Investments

As of June 30, 2006, the Village did not have any investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Village's investments. The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes (Act 196, PA 1997) authorize the Village to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

NOTE B – DEPOSITS AND INVESTMENTS (Continued):

The Village has no investment policy that would further limit its investment choices. Ratings are not required for the Village's investment in U.S. Government Agencies or equity-type funds. The Village's investments are in accordance with statutory authority.

Concentration of Credit Risk

The Village places no limit on the amount the Village may invest in any one issuer. There were no investments subject to concentration of credit risk disclosure.

NOTE C – DUE TO/FROM OTHER FUNDS:

Village of Chatham, Michigan reports Interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of Interfund balances presented in the statements of net assets/balance sheet for governmental funds. Interfund transactions resulting in Interfund receivables and payables are as follows:

		DUE TO OTHER FUNDS		
		General Fund	Water Fund	Totals
DUE FROM OTHER FUNDS	Major Road Fund	\$198	\$-	\$198
	Local Road Fund	108	-	108
	Sewer Fund	383	204	587
	Water Fund	205	-	205
	Total	<u>\$894</u>	<u>\$204</u>	<u>\$1,098</u>

All balances resulted from the time lag between the dates that (1) Interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE D – CAPITAL ASSETS:

A summary of the capital assets of the Governmental Activities is as follows:

	Balance at July 1, 2005	Additions	Disposals	Balance at June 30, 2006
GOVERNMENTAL ACTIVITIES:				
Land	\$1,000	\$-	\$-	\$1,000
Total Capital Assets, not being depreciated	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Buildings and improvements	83,000	-	-	83,000
Furniture and equipment	50,378	-	-	50,378
Total Capital Assets, being depreciated	<u>133,378</u>	<u>-</u>	<u>-</u>	<u>133,378</u>
Less Accumulated Depreciation:				
Building and improvements	(14,525)	(2,075)	-	(16,600)
Furniture and equipment	(38,808)	(1,930)	-	(40,738)
Total Accumulated Depreciation	<u>(53,333)</u>	<u>(4,005)</u>	<u>-</u>	<u>(57,338)</u>
Governmental Activities Capital Assets, Net	<u>\$81,045</u>	<u>\$ (4,005)</u>	<u>\$-</u>	<u>\$77,040</u>

Depreciation expenses for the governmental activities were charged to the following functions and activities of the primary government:

Unallocated Depreciation	\$2,075
Public Works	1,930
Total	<u>\$4,005</u>

NOTE D – CAPITAL ASSETS (Continued):

A summary of changes in business-type activities capital assets is as follows:

	Balance at July 1, 2005	Additions	Disposals	Balance at June 30, 2006
BUSINESS-TYPE ACTIVITIES:				
Land	\$6,225	\$ -	\$ -	\$6,225
Total Capital Assets, not being depreciated	6,225	-	-	6,225
Buildings and improvements	2,315,815	-	-	2,315,815
Equipment	7,320	-	-	7,320
Total Capital Assets, being depreciated	2,323,135	-	-	2,323,135
Less Accumulated Depreciation:				
Buildings and improvements	(1,022,115)	(62,203)	-	(1,084,318)
Equipment	(2,196)	(366)	-	(2,562)
Total Accumulated Depreciation	(1,024,311)	(62,569)	-	(1,086,880)
Business-Type Capital Assets, Net	\$1,305,049	\$(62,569)	\$ -	\$1,242,480

Depreciation expense for the business-type activities was charged to the following functions and activities of the primary government:

Business-Type Activities:	
Sewer Fund	\$11,928
Water Fund	50,641
Total Depreciation Expense – Business-Type Activities	<u>\$62,569</u>

NOTE E – LONG-TERM DEBT:

**Junior Lien Water System Bond
June 30, 2006**

	August 1	February 1		
	Interest	Interest	Principal	Total
2006-2007	\$5,849	\$5,849	\$2,000	\$13,698
2007-2008	5,788	5,788	4,000	15,576
2008-2009	5,666	5,666	5,000	16,332
2009-2010	5,513	5,513	5,000	16,026
2010-2011	5,359	5,359	5,000	15,718
2011-2012	5,206	5,206	6,000	16,412
2012-2013	5,023	5,023	6,000	16,046
2013-2014	4,839	4,839	7,000	16,678
2014-2015	4,624	4,624	7,000	16,248
2015-2016	4,410	4,410	7,000	15,820
2016-2017	4,196	4,196	8,000	16,392
2017-2018	3,951	3,951	8,000	15,902
2018-2019	3,706	3,706	9,000	16,412
2019-2020	3,430	3,430	10,000	16,860
2020-2021	3,124	3,124	10,000	16,248
2021-2022	2,818	2,818	11,000	16,636
2022-2023	2,481	2,481	11,000	15,962
2023-2024	2,144	2,144	12,000	16,288
2024-2025	1,776	1,776	13,000	16,552
2025-2026	1,378	1,378	14,000	16,756
2026-2027	949	949	15,000	16,898
2027-2028	490	490	16,000	16,980
TOTALS	<u>\$82,720</u>	<u>\$82,720</u>	<u>\$191,000</u>	<u>\$356,440</u>

NOTE E – LONG-TERM DEBT (Continued):

The Bond was originally issued for \$217,000 on February 1, 1988. Bond Payments are due Semi-annually, February 1 (principal plus interest) and August 1 (interest), with an interest rate of 6.125%.

	July 1, 2005	Additions	Subtractions	June 30, 2006
Business-Type Activities:				
Junior Lien Water Revenue Bond	\$193,000	\$-	\$2,000	\$191,000
Total Business-Type Activities	193,000	-	2,000	191,000
 TOTAL PRIMARY GOVERNMENT LONG-TERM DEBT	 \$193,000	 \$-	 \$2,000	 \$191,000

NOTE F – RESERVED AND DESIGNATED NET ASSETS:

The Water Fund has reserved net assets totaling \$52,756 which represents the balance available to pay down debt.

NOTE G – PROPERTY TAXES:

The Village property tax is levied on each July 1st on the taxable valuation of property (as defined by State statutes) located in the Village as of the preceding December 31st.

Although the Village 2005 ad valorem tax is levied and collectible on July 1, 2006, it is the Local Governmental Village's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60) days.

The 2005 taxable valuation of the Village totaled \$3,966,482 on which ad valorem taxes levied consisted of 3.9814 mills for the Village's operation purposes. These amounts are recognized in the General Fund financial statements as revenue.

NOTE H – CONTINGENT LIABILITIES:

Risk Management – The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village has obtained commercial insurance to handle its risk of loss.

NOTE I – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

The Village has variances with regards to expenditures over appropriations in their funds as of June 30, 2006.

	Budget	Actual	Unfavorable Variance
General Fund:			
Legislative	\$2,500	\$3,725	\$1,225
Township Hall & Grounds	15,700	17,076	1,376
Zoning	-	60	60
Local Road:			
Streets	13,750	17,358	3,608
Liquor Law:			
Liquor Law Enforcement	-	621	621

REQUIRED SUPPLEMENTAL
FINANCIAL INFORMATION

Village of Chatham, Michigan

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	GAAP	Final Budget
			Basis	Positive
				(Negative)
REVENUES:				
Taxes	\$ 20,500	\$ 20,500	\$ 17,967	\$ (2,533)
State Sources	18,000	18,000	20,335	2,335
Interest	900	900	2,561	1,661
Other Revenues	-	-	778	778
TOTAL REVENUES	39,400	39,400	41,641	2,241
EXPENDITURES:				
Legislative	2,500	2,500	3,725	(1,225)
General Services and Administration	26,250	26,250	26,502	(252)
Public Works	5,000	5,000	4,818	182
Community and Economic Development	-	-	60	(60)
Other	2,850	2,850	1,067	1,783
TOTAL EXPENDITURES	36,600	36,600	36,172	428
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,800	2,800	5,469	2,669
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
CHANGE IN FUND BALANCE	2,800	2,800	5,469	2,669
Fund balance, beginning of year	30,524	30,524	30,524	-
FUND BALANCE, END OF YEAR	\$ 33,324	\$ 33,324	\$ 35,993	\$ 2,669

Village of Chatham, Michigan

MAJOR ROAD FUND

BUDGETARY COMPARISON SCHEDULE

For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	GAAP	Final Budget
			Basis	Positive
				(Negative)
REVENUES:				
State Sources	\$ 21,000	\$ 21,000	\$ 21,018	\$ 18
Interest	600	600	1,515	915
Other Revenue	-	-	-	-
TOTAL REVENUES	21,600	21,600	22,533	933
EXPENDITURES:				
Public Works	7,920	7,920	7,207	713
TOTAL EXPENDITURES	7,920	7,920	7,207	713
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	13,680	13,680	15,326	1,646
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Transfers (Out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
CHANGE IN FUND BALANCE	13,680	13,680	15,326	1,646
Fund balance, beginning of year	65,095	65,095	65,095	-
FUND BALANCE, END OF YEAR	\$ 78,775	\$ 78,775	\$ 80,421	\$ 1,646

Village of Chatham, Michigan

LOCAL ROAD FUND

BUDGETARY COMPARISON SCHEDULE

For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	GAAP	Final Budget
			Basis	Positive
				(Negative)
REVENUES:				
State Sources	\$ 13,500	\$ 13,500	\$ 15,421	\$ 1,921
Interest	425	425	1,101	676
Other Revenue	-	-	-	-
TOTAL REVENUES	13,925	13,925	16,522	2,597
EXPENDITURES:				
Public Works	13,750	13,750	17,358	(3,608)
TOTAL EXPENDITURES	13,750	13,750	17,358	(3,608)
EXCESS OF REVENUES OVER				
(UNDER) EXPENDITURES	175	175	(836)	(1,011)
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Transfers (Out)	-	-	-	-
TOTAL OTHER FINANCING				
SOURCES (USES)	-	-	-	-
CHANGE IN FUND BALANCE	175	175	(836)	(1,011)
Fund balance, beginning of year	53,557	53,557	53,557	-
FUND BALANCE, END OF YEAR	\$ 53,732	\$ 53,732	\$ 52,721	\$ (1,011)

Other Supplemental Information

Village of Chatham, Michigan

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Taxes:			
Current levy	\$ 18,000	\$ 13,734	\$ (4,266)
Delinquent property taxes	-	2,213	2,213
Payment in lieu of taxes	2,500	1,968	(532)
Penalties and interest on taxes	-	52	52
Total Taxes	<u>20,500</u>	<u>17,967</u>	<u>(2,533)</u>
State Sources:			
State revenue sharing	18,000	20,335	2,335
Total State Sources	<u>18,000</u>	<u>20,335</u>	<u>2,335</u>
Interest & Rentals			
Interest	300	961	661
Charter rental	600	1,600	1,000
Total Interest	<u>900</u>	<u>2,561</u>	<u>1,000</u>
Other Revenues:			
Miscellaneous other	-	778	778
Total Other Revenues	<u>-</u>	<u>778</u>	<u>778</u>
TOTAL REVENUES	<u>39,400</u>	<u>41,641</u>	<u>1,580</u>
EXPENDITURES:			
LEGISLATIVE:			
Township Board:			
Personnel services	2,500	3,725	(1,225)
Supplies	-	-	-
Other services and charges	-	-	-
TOTAL LEGISLATIVE	<u>2,500</u>	<u>3,725</u>	<u>(1,225)</u>
GENERAL SERVICES AND ADMINISTRATION:			
Supervisor:			
Personnel services	3,000	3,000	-
Supplies	-	-	-
Other services and charges	-	-	-
Total Supervisor	<u>3,000</u>	<u>3,000</u>	<u>-</u>
Assessing:			
Personnel services	-	-	-
Supplies	-	-	-
Other services and charges	-	-	-
Total Assessing	<u>-</u>	<u>-</u>	<u>-</u>

Village of Chatham, Michigan

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
Clerk:			
Personnel services	\$ 3,600	\$ 3,000	\$ 600
Supplies	-	-	-
Other services and charges	-	-	-
Total Clerk	<u>3,600</u>	<u>3,000</u>	<u>600</u>
Treasurer:			
Personnel services	3,600	3,225	375
Supplies	-	-	-
Other services and charges	350	201	149
Total Treasurer	<u>3,950</u>	<u>3,426</u>	<u>524</u>
Township Hall and Grounds:			
Personnel services	1,000	992	8
Supplies	800	1,200	(400)
Other services and charges	13,900	14,884	(984)
Total Township Hall and Grounds	<u>15,700</u>	<u>17,076</u>	<u>(1,376)</u>
TOTAL GENERAL SERVICES AND ADMINISTRATION	<u>26,250</u>	<u>26,502</u>	<u>(252)</u>
PUBLIC WORKS:			
Streetlights:			
Other services and charges	<u>5,000</u>	<u>4,818</u>	<u>182</u>
TOTAL PUBLIC WORKS	<u>5,000</u>	<u>4,818</u>	<u>182</u>
COMMUNITY AND ECONOMIC DEVELOPMENT			
Zoning:			
Other services and charges	<u>-</u>	<u>60</u>	<u>(60)</u>
TOTAL COMMUNITY AND ECONOMIC DEVELOPMENT	<u>-</u>	<u>60</u>	<u>(60)</u>
OTHER FUNCTIONS:			
Payroll taxes	<u>2,850</u>	<u>1,067</u>	<u>1,783</u>
TOTAL OTHER FUNCTIONS	<u>2,850</u>	<u>1,067</u>	<u>1,783</u>
TOTAL EXPENDITURES	<u>36,600</u>	<u>36,172</u>	<u>488</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,800</u>	<u>5,469</u>	<u>2,068</u>

Village of Chatham, Michigan

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
OTHER FINANCING SOURCES (USES):			
Transfers In	\$ -	\$ -	\$ -
Transfers (Out)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
CHANGE IN FUND BALANCE	2,800	5,469	2,068
Fund balance, beginning of year	30,524	30,524	-
FUND BALANCE, END OF YEAR	<u>\$ 33,324</u>	<u>\$ 35,993</u>	<u>\$ 2,068</u>

Village of Chatham, Michigan

MAJOR GOVERNMENTAL FUNDS

MAJOR ROAD FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
REVENUES:			
State Revenue:			
Michigan transportation funds	\$ 21,000	\$ 21,018	\$ 18
Other state grants	-	-	-
Total State Revenue	<u>21,000</u>	<u>21,018</u>	<u>18</u>
Interest:			
Interest income	600	1,515	915
Total Interest	<u>600</u>	<u>1,515</u>	<u>915</u>
Other Revenue:			
Other revenue	-	-	-
Total Other Revenue	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>21,600</u>	<u>22,533</u>	<u>933</u>
EXPENDITURES:			
Public Works:			
Streets:			
Personnel services	2,150	1,759	391
Supplies	100	66	34
Other services and charges	5,670	5,382	288
Capital outlay	-	-	-
Total Public Works	<u>7,920</u>	<u>7,207</u>	<u>713</u>
TOTAL EXPENDITURES	<u>7,920</u>	<u>7,207</u>	<u>713</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>13,680</u>	<u>15,326</u>	<u>1,646</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	-	-	-
Transfers (Out)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN FUND BALANCE	<u>13,680</u>	<u>15,326</u>	<u>1,646</u>
Fund balance, beginning of year	<u>65,095</u>	<u>65,095</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 78,775</u></u>	<u><u>\$ 80,421</u></u>	<u><u>\$ 1,646</u></u>

Village of Chatham, Michigan

MAJOR GOVERNMENTAL FUNDS

LOCAL ROAD FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
State Revenue:			
Michigan transportation funds	\$ 12,000	\$ 12,257	\$ 257
Metro authority monies	<u>1,500</u>	<u>3,164</u>	<u>1,664</u>
Total State Revenue	<u>13,500</u>	<u>15,421</u>	<u>1,921</u>
Interest:			
Interest income	<u>425</u>	<u>1,101</u>	<u>676</u>
Total Interest	<u>425</u>	<u>1,101</u>	<u>676</u>
Other Revenue:			
Other revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Revenues	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>13,925</u>	<u>16,522</u>	<u>2,597</u>
EXPENDITURES:			
Public Works			
Streets:			
Personnel services	2,150	2,182	(32)
Supplies	100	66	34
Other services & charges	11,500	15,110	(3,610)
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total Public Works	<u>13,750</u>	<u>17,358</u>	<u>(3,608)</u>
TOTAL EXPENDITURES	<u>13,750</u>	<u>17,358</u>	<u>(3,608)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>175</u>	<u>(836)</u>	<u>(1,011)</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	-	-	-
Transfers (Out)	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN FUND BALANCE	175	(836)	(1,011)
Fund balance, beginning of year	<u>53,557</u>	<u>53,557</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 53,732</u>	<u>\$ 52,721</u>	<u>\$ (1,011)</u>

Village of Chatham, Michigan

NON-MAJOR GOVERNMENTAL FUNDS

**SPECIAL REVENUE
LIQUOR LAW FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
State Sources:			
State liquor fees	\$ 650	\$ 621	\$ (29)
TOTAL REVENUES	<u>650</u>	<u>621</u>	<u>(29)</u>
EXPENDITURES:			
Public Safety:			
Liquor Law Enforcement	-	-	-
Personnel services	-	-	-
Supplies	650	621	29
Other services and charges	-	-	-
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total Public Safety	<u>650</u>	<u>621</u>	<u>29</u>
TOTAL EXPENDITURES	<u>650</u>	<u>621</u>	<u>29</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers (out)	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>
CHANGES IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Compliance Supplements



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable President and Village Board of Trustees
Village of Chatham, Michigan
P.O. Box 167
Chatham, Michigan 49816

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund, as of and for the year ended June 30, 2006, which collectively comprise the Village of Chatham, Michigan's basic financial statements and have issued our report thereon dated November 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Chatham, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

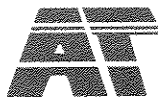
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Chatham, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*. These instances can be found in a separate letter to management dated November 10, 2006 as 06-01.

This report is intended solely for the information and use of the audit committee, management, and Village Board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

November 10, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.

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Village of Chatham, Michigan Report to Management Letter For the Year Ended June 30, 2006

To the Honorable President and Village Board
Village of Chatham, Michigan
PO Box 167
Chatham, MI 49816

In planning and performing our audit of the financial statements of the Village of Chatham, Michigan for the year ended June 30, 2006; we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could affect the Village of Chatham, Michigan's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Excess Expenditures Over Appropriations

06-01 Condition/Criteria: Public Act 621 of 1978, Section 18 (1) as amended, provides that villages shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Villages' actual expenditures and budgeted expenditures for the General Fund and Special Revenue Funds have been shown on a functional basis. The approved budgets of the Village for these funds were adopted on an activity and/or program level. During the year ended June 30, 2006, the Village incurred functional expenditures which were in excess of the amounts appropriated as shown within the basic financial statements.

Effect: The Village is not in compliance with State Law.

Cause of Condition: Failure to amend the budgets during the year based on the level of expenditures.

Recommendation: The Village should strictly control expenditures in each governmental fund so as not to exceed the original appropriation. When this is not possible, the budget should be amended accordingly.

- Contact Person(s) Responsible for Correction:
 - Paul Whitmarsh, President
- Corrective Action Planned:
 - The Village will not request funding until the funds have been spent.
- Anticipated Completion Date:
 - June 30, 2007

Village Board
Village of Chatham, Michigan

Management Response – Corrective Action Plan: The budget will be more closely monitored and budget amendments will be made accordingly.

* * * * *

This report is intended solely for the information and use of the Village of Chatham, Michigan's board, management, and other legislative or regulatory body and is not intended to be and should not be and should not be used by anyone other than these specified parties.

We appreciate and would like to thank the Village of Chatham, Michigan's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 10, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.

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GREEN BAY
MILWAUKEE

November 10, 2006

To the Honorable President and Village Board
Of the Village of Chatham, Michigan
PO BOX 167
Chatham, MI 49816

We have audited the financial statements of the Village of Chatham, Michigan for the year ended June 30, 2006, and has issued our report thereon dated November 10, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village of Chatham, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed test of the Village of Chatham, Michigan's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Village of Chatham, Michigan are described in Footnotes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Village of Chatham, Michigan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

To the Honorable President and Village Board
Of McMillan Village, Michigan

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village of Chatham; Michigan's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Village of Chatham, Michigan, either individually or in the aggregate, indicate matters that could have a significant effect on the Village of Chatham, Michigan's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Chatham, Michigan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Conclusion

This information is intended solely for the use of the Village of Chatham, Michigan Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants